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49 *Money man turns compan*

FEBRUARY 20, 1989
VOLUME 143
NUMBER 4

THE EDITORIAL INDEX OF COMPANIES REFERRED TO IN THIS ISSUE IS ON PAGES 6 AND 7.

COVER STORY

82 Citizen Kane Meets Adam Smith
By Subrata N. Chakravarty with Carolyn Torcellini
They call monopoly newspapers "franchises." But it seems that some of the franchises are starting to fray around the edges.

COMPANIES

43 Shape Inc.
By Richard Behar
A growth company one day, busted the next, Shape is one more example of how careless bank lending has gotten.

48 Publicker Industries
By Matthew Schifrin
Want to buy $4 in cash plus valuable tax-loss carryforwards for just $2.87? Consider this Drexel Burnham-backed corporate shell.

49 W.R. Berkley Corp.
By Edward F. Cone
Can a stock picker find satisfaction running a business? Onetime go-go money man Bill Berkley has.

56 CalFed Inc.
By John Heins
John Torell left a floundering bank to take over a floundering savings and loan. Is he some kind of masochist?

81 Go-Video Inc.
By William P. Barrett
Assets: an untested patent and a $4.5 billion lawsuit nearing trial against the Japanese.

88 Inspiration Resources Corp.
By Ruth Simon
Reuben Richards took it off the critical list. Does he have the vision to get the company growing again?

90 The Up & Comers: AEI Music Network Inc.
By Marc Beauchamp
Meet the man who moved background music into the foreground.

96 The Up & Comers: American Exploration Co.
By John R. Hayes
Mark Andrews doesn't know a lot about geology, but he's clever at finding money and limiting his risks.

INTERNATIONAL

39 Le Défi Disney
By John Marcom Jr.
European monopolies on television broadcasting are crumbling. The winner: Hollywood.

INVESTING

41 Dealmaking
By Lisa Gubernick
Wall Street smirked when Stephen Swid paid CBS $125 million for its music publishing division. Who's smirking now?

104 Gentleman Scamster
By Richard L. Stern
Who wouldn't have truste
Bissell? He had a respected
cellent connections and a m
lar mansion.

140 The Funds: J&W Selig
By Richard Phalon
The old managers did prett
themselves. Now it's up t
managers to deliver better
fund shareholders.

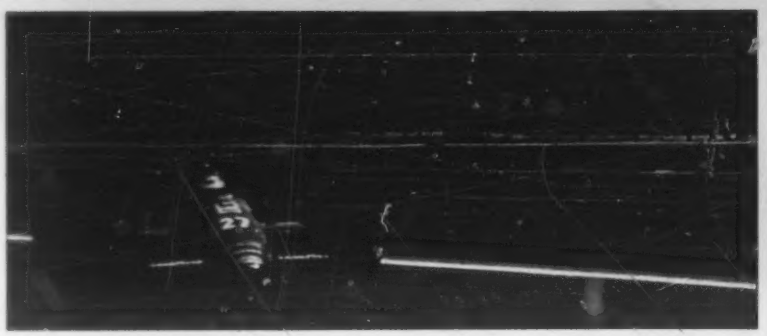
152 Streetwalker
Japanese interest in the D
Grace; Di Giorgio Co-p.; Un
ers Corp.

GOVERNMENT

38 The Money Has Alread Been Borrowed
By William Baldwin
They say that losses at sick
mounting by the billions, t
is upon us. That's mostly m

42 Tax Adagio
By Richard Phalon
It's not corporate restruct
has the public upset but al
money being made. So loo
gress to make a lot of no
almost nothing.

108 Influence For Sale
By Janet Novack
Political Action Committe
come a money machine f
newcomers out of Congre
cumbents in. Some brav
people are rebelling.



60 *Grand Prix for Honda?*

68 *Thermal power*

NUMBERS GAME

110 What's Off, What's On?
By Penelope Wang
New reporting rules will cause some surprises in the 1988 annual reports. But that's just the beginning.

INDUSTRIES

60 Autos: Grand Prix Racing—Can Anyone Stop Honda?
By Richard Behar
Nothing mixes glamour, money and technology like this race. Will success spoil the sport of corporations?

68 Energy: Thermal Solar Power
By James Cook
Thermal solar is more cost-competitive than you might think.

COMPUTERS/COMMUNICATIONS

72 IBM-TV?
By George Gilder
Will the Japanese beat us in high definition TV? Here's why it doesn't much matter.

112 The Supernets Are Coming!
By Michael Gianturco
Computers, like railroads before them, are reaching critical mass. For both industry and investors, there will be winners and losers.

116 The Sincerest Form Of Flattery
By David Churbuck
The computer industry has done a lousy job of making its machines interchangeable. Phoenix Technologies is coming to the rescue.

SCIENCE & TECHNOLOGY

120 **Kaboom!**
By Gary Slutsker
In airline terrorism, offensive technology is cheaper than defensive technology. And so passengers will pay a lot for safety and still not be safe.

MARKETING

122 **R.I.P. Fred The Furrier**
By Jeffrey A. Trachtenberg
Fred Schwartz built a fur business selling to the masses. But the market he created got away from him.

123 **Price Is The Object**
By Steve Weiner
Toys "R" Us and Wal-Mart have done well keeping prices low all the time. Now Sears and Montgomery Ward sell cheap, too.

PERSONAL AFFAIRS

126 **The Thoughts That Count**
By Anne Matthews
Can't afford to put your name on a hospital wing or tennis stadium? How about a tree, a quarterback or a violinist? Also: Learning about Washington.

CAREERS

130 **The Hidden Cost Of Golden Handshakes**
By Dyan Machan
When companies offer lucrative incentives to quit, they're letting workers decide who should stay. Is that any way to run a business?

DEPARTMENTS

8 Side Lines
10 Follow-Through
14 The Informer
16 Readers Say
19 Fact and Comment
24 Other Comments
27 Fact and Comment II
31 Commentary
155 Flashbacks
156 Thoughts

COLUMNISTS

86 Michael Novak
145 Ben Weberman
146 David Dreman
147 Ann C. Brown
148 Ashby Bladen
149 Mark Hulbert

MONEY & INVESTMENTS

33 What's Ahead For Business
34 The Forbes Index
137 The Forbes/Wilshire 5000 Review
142 What The Big Money Managers Are Buying: The Forbes/TUCS Institutional Review

FACES BEHIND THE FIGURES

134 **Stanley Kreitman,** *United States Banknote*
134 **D.H. Ankeny Jr.,** *First Bank System*
135 **Mohamed Younes,** *Baring Brothers & Co.*
135 **Enrique Sabater,** *Art salesman*

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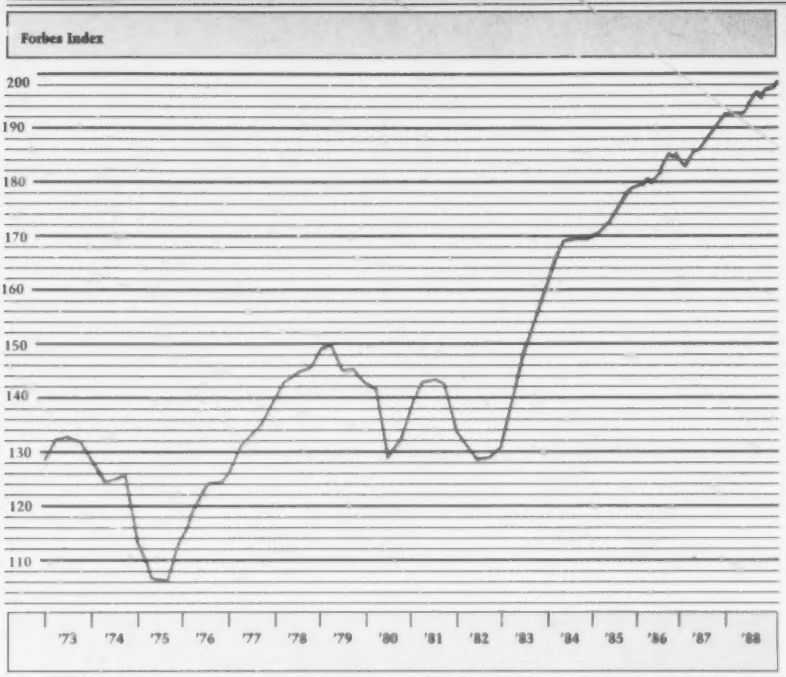
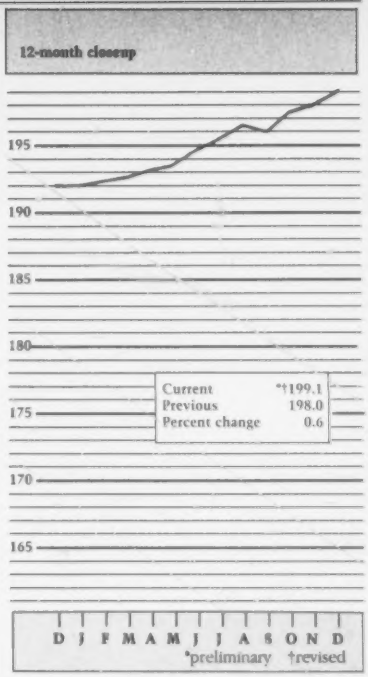
The Forbes Index





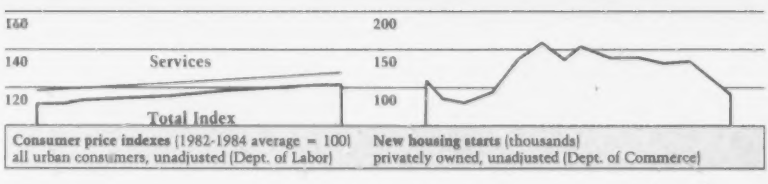
Only a little to complain about. The gross national product grew 3.8% in 1988, the best increase since 1984. Keep in mind that the gain would have been greater were it not for last year's drought. Manufacturers' new orders rose 6.4% in December, to $131 billion, while industrial production eked out a 0.3% gain. The Consumer Price Index (not seasonally adjusted) edged up 0.2% in December. The services component of this index also posted a 0.2% increase in December. In 1988 the overall price level rose 4.4%, the same as it did in all of 1987.

One sector not doing well is home building. Although December new housing starts of 93,700 are 9.7% above the comparable 1987 figure, the trailing 12-month new housing total is off 8.2% from a year ago.

The Forbes Index Components

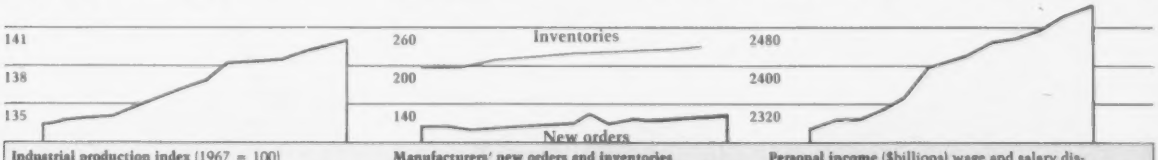
The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.



Consumer price indexes (1982-1984 average = 100) all urban consumers, unadjusted (Dept. of Labor)

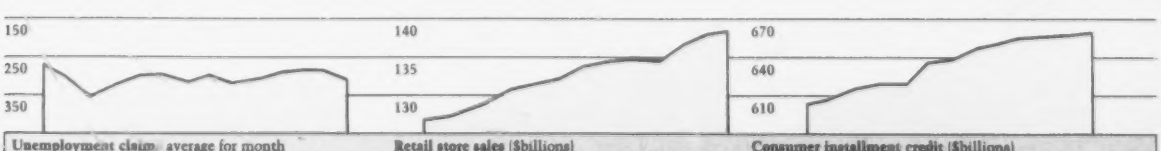
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)



Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)

Manufacturers' new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)

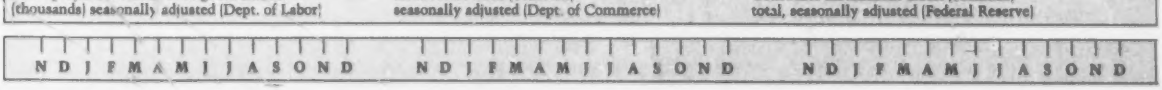
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



Unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)

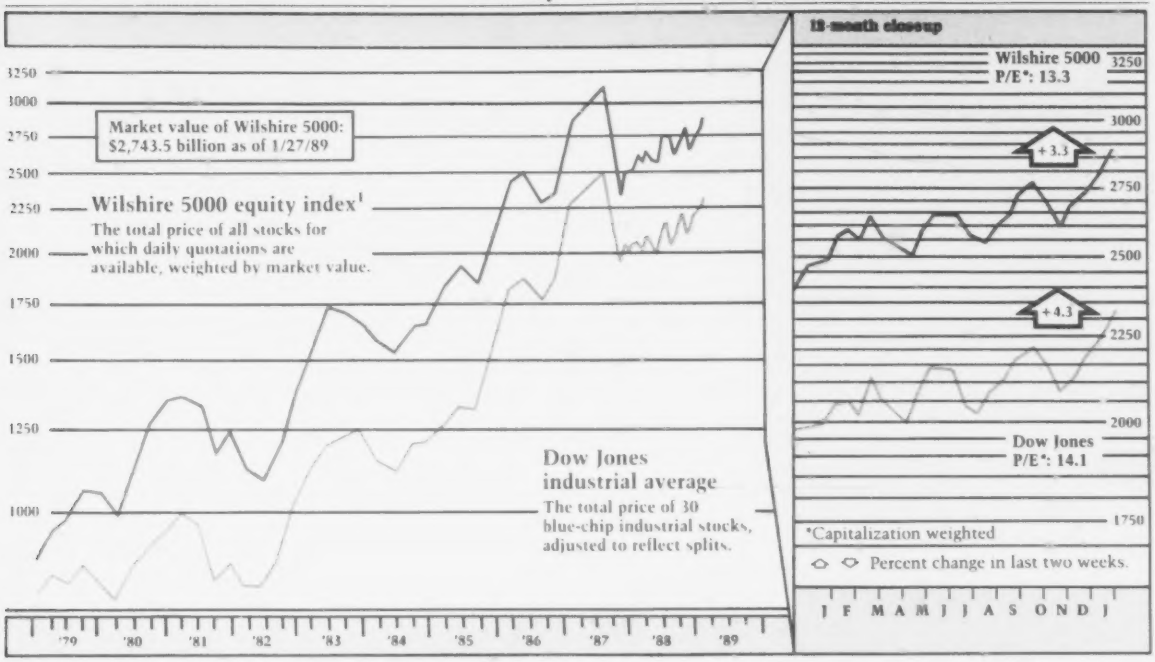
Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)

Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)



The Forbes/Wilshire 5000 Review

Edited by Steve Kichen



The "breadth" factor. Gains posted by big, well-known stocks account for the Dow's steady rise in January and its close above 2300, a postcrash high. But on Friday, Jan. 27, when the Dow advanced 32 points, more than 600 NYSE stocks declined. Thus, while the Dow shot up 7.1% over the last four weeks, the New York Stock Exchange index of 1,800 common shares gained 5.5%. The American Stock Exchange and the over-the-counter market were up 5.1% and 4.3%, respectively.

Market technicians have a phrase for such divergences. "The market lacks breadth," they say, when one market segment moves significantly ahead of another. In the past such a sign has often indicated a near-term market top. Note, too, that in the last two weeks the Dow P/E jumped from 13.5 to 14.1. This means that the Dow's earnings yield (earnings/price) is down to 7.1%. Compare this with the 8.3% yield on a risk-free six-month Treasury bill. That lends some support to the technicians' theory.

Closeup On the Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	5.4	5.5	7.1	5.5	5.1	4.3
in last 52 weeks	14.7	13.9	18.6	14.3	19.5	15.5

Stock performance based on six key investor yardsticks[3]

Percent change	Company size		Volatility[4]		P/E multiple		Dividend yield		Growth profile[5]		Share price	
	large	small	high	low	over 21	under 8	over 4.5%	none	high	low	over $34	under $4
in last 4 weeks	5.3	7.3	4.8	2.5	4.0	5.4	3.3	4.4	6.4	4.1	4.3	5.0
in last 52 weeks	17.5	13.7	23.9	7.7	35.1	18.2	3.4	26.1	15.4	14.2	24.4	3.4

[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. [3]Equal weighted indices containing all shares with market capitalizations over $10 million [4]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. [5]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

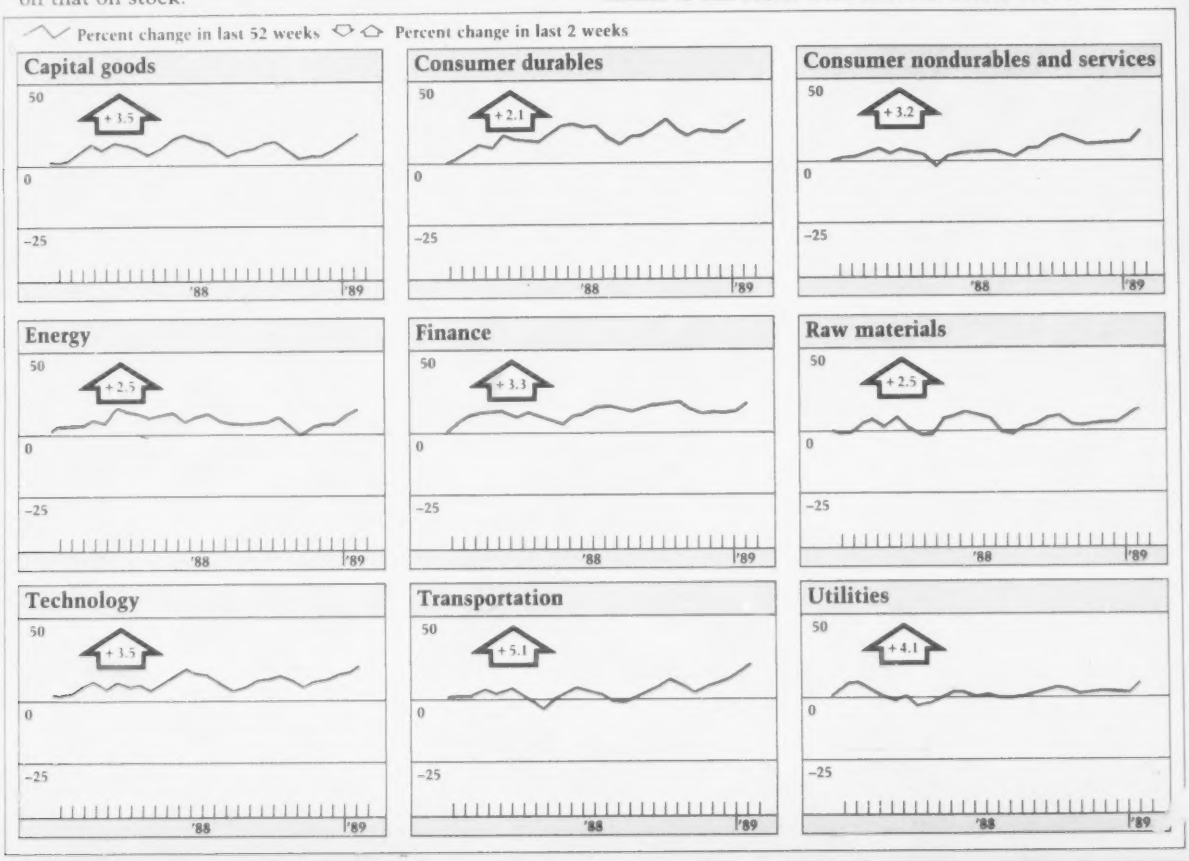
Note: All data for periods ending 1/27/89. Prepared by Wilshire Associates, Santa Monica, Calif.

Steven Ramos

Where the Action Is

Takeover pressure in energy? Texas Eastern, a diversified firm built around a gas pipeline serving the Northeast, shot up 59% in the two weeks to Jan. 27 on Coastal Corp.'s buyout offer of $42. Texas Eastern closed $6 above Coastal's bid. The truce Carl Icahn reached with Texaco on Jan. 28, however, takes some of the takeover pressure off that oil stock.

The leading sector for the fortnight was transportation, which gained 5.1%. Flightsafety International, Consolidated Freightways, Delta and NWA were up more than 9%. The weakest group was consumer durables, which rose only 2.1%. Hillenbrand Industries, a maker of caskets, and Goodyear Tire & Rubber pulled down the performance of this sector with losses in excess of 7%.



What the Analysts Think

Prices rise, estimates fall. While investors were bidding up share prices to postcrash highs, analysts were reducing 1989 earnings estimates for five of the nine Wilshire sectors. Transportation, the best-performing sector over the last two weeks, suffered the largest estimate cut, a 0.9% decline. Consumer durables' estimate rose 1.3%.

Forecasting the Forbes Sales 500

Performance period	Average earnings per share	P/E
latest 12 months	$3.24	12.6
1989 estimates	3.95	10.3
1990 estimates	NA	NA

NA: Not available.

Rank based on change in estimate	Sector	Estimated 1989 EPS	Estimated 1989 P/E	% change in 1989 estimate in 2 weeks	% change in 1989 estimate in 4 weeks
1	Consumer durables	$4.89	11.4	1.31%	2.15%
2	Capital goods	3.06	12.7	0.26	0.99
3	Raw materials	3.50	9.3	0.24	0.57
4	Utilities	3.14	9.9	0.19	0.13
5	Energy	3.05	12.2	–0.03	0.04
6	Consumer nondurables	2.77	13.0	–0.12	–0.22
7	Finance	3.76	7.9	–0.28	–1.06
8	Technology	3.24	11.0	–0.55	–0.72
9	Transportation	2.85	10.3	–0.92	–0.31

Earnings projections are capitalization-weighted consensus estimates from over 3,000 security analysts. Data are compiled and updated continually by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 1/27/89. Prepared by Wilshire Associates, Santa Monica, Calif.; IBES, a service of Lynch, Jones & Ryan, New York.

The Forbes/TUCS Institutional Portfolio Report

Edited by Steve Kichen

DESPITE A FOURTH-QUARTER SLUMP, professional money managers made a nice recovery from the crash and beat the market last year.

Wilshire Associates' Trust Universe Comparison Service monitors $390 billion of pension fund assets, 22% of the estimated $1.8 trillion invested in U.S. pension funds. TUCS reports that for 1988 the institutions racked up a total return of 18.3% on stock portfolios, which surpasses both the 17.9% return on the Wilshire index and the 16.8% return on the S&P 500.

But the pros have been lagging lately. Two of every three money managers monitored by TUCS underperformed the S&P 500 in the fourth quarter. During the quarter the average return on institutional stock portfolios was 2.2%, against 2.3% for the Wilshire index and 3.1% for the S&P 500. Even with that 2.2% total return, however, equities outperformed all other investment vehicles in the last quarter. Fixed-income investments had a 0.9% return, while risk-free cash earned 2.1%.

Government paper and other liquid investments accounted for 10.9% of institutional portfolios at quarter's end. This is the highest level since the September 1985 quarter, when it stood at 11.5%. Institutional money manager James Awad, who manages $500 million for BMI Capital in New York, thinks this will soon change. "Everyone is underweighted in stocks and will scramble back into the market because of their fear of underperforming," he says. If the deficit begins to shrink without new taxes, as President Bush says it can, Awad thinks "the market will surprise a lot of people and go through its old highs."

The best-performing style of equity management for 1988 was "value" management. Such managers focused on larger companies with underlying assets that weren't fully reflected in the stock's price. Returns by style are shown below in the table "How different managers performed." The table at right, "Segment performance and cash flows," shows where professional managers are moving their assets. It indicates that corporations are continuing to pull money out of their pension funds. (More precisely, they put money in for current employees, but not as fast as it is being drawn out by retired employees.) Total institutional holdings declined 3.9% over the course of 1988. The biggest drop was in fixed-income securities, which fell 5.7%. The only segment to post any growth was cash, which rose 6.3% for the year.

How different managers performed

Manager style	Total return[3] recent quarter	12 months	24 months[4]
Diversified	2.4%	17.5%	10.7%
Growth	1.2	11.4	9.2
Growth—emerging	0.9	20.2	10.0
Market timer	1.7	13.5	10.4
Sector rotator	2.4	17.6	10.6
Value	2.5	22.8	10.8

Where the institutions put their money

Segment	—Portfolio weighting— most recent quarter	previous quarter
Equity	60.8%	60.0%
Fixed income	27.7	28.6
Cash and equivalents	10.9	10.8
Convertibles	0.1	0.1
Other[1]	0.5	0.5

Equity portfolio characteristics

	Institutional portfolios	Wilshire 5000
Price/earnings ratio	14.2	11.9
Dividend yield	3.4%	3.3%
Beta[2]	1.05	1.07
Price/sales ratio	1.29	1.34
Price/book ratio	2.86	2.40

Segment performance and cash flows

Segment	—Most recent quarter— median total return	shift in institutional holdings	—Latest 12 months— median total return	shift in institutional holdings
Equity	2.2%	–0.4%	18.3%	–3.5%
Fixed income	0.9	0.2	7.7	–5.7
Cash equiv	2.1	–0.3	7.8	6.3
Convertibles	0.5	–1.7	14.3	–2.6
Other[1]	1.8	0.2	6.0	–0.5
Total	1.6	–0.5	13.2	–3.9

Position changes: These securities had the greatest relative change in holdings over the last quarter

Security	Increase in holdings	Total quarter return	Security	Decrease in holdings	Total quarter return
IBM	5.0%	6.6%	Wal-Mart	–3.0%	–2.6%
Exxon	4.5	–0.4	Apple Computer	–2.7	–6.7
Citicorp	4.1	0.5	Kroger	–2.6	–4.8
American Brands	3.0	25.5	Nynex	–2.2	1.5
Philip Morris	2.2	6.5	BellSouth	–2.0	–2.5
Johnson & Johnson	2.2	–0.3	Bell Atlantic	–1.5	0.2
General Electric	2.1	4.1	US West	–1.5	0.0
Minn Min & Mfg	2.0	–2.8	Rockwell Intl	–1.4	–1.4
Dow Chemical	1.8	1.7	Quaker Oats	–1.3	–1.3
Am Home Prods	1.8	5.4	PPG	–1.3	–5.6

[1]Real estate, foreign investments, venture capital, guaranteed insurance contracts. [2]A measure of risk. A stock with a beta of 1.00 tends to move up or down at the same rate as the S&P 500. [3]Includes all forms of investments. [4]Figures for 24 months are annualized.

Note: Data for quarter ending 12/30/88. Prepared by the Trust Universe Comparison Service (TUCS®), a service of Wilshire Associates, Santa Monica, Calif.

Where the institutions are—and aren't

Most overweighted relative to Wilshire 5000			Most underweighted relative to Wilshire 5000		
	% of			% of	
Security	institutional universe	Wilshire 5000	Security	institutional universe	Wilshire 5000
Philip Morris	1.6%	1.0%	Exxon	1.1%	3.0%
Citicorp	0.8	0.4	IBM	2.9	4.3
American Brands	0.6	0.3	Royal Dutch Petroleum	0.2	1.5
MCI Communications	0.4	0.1	British Petroleum ADS	0.1	1.2
Warner Communications	0.5	0.2	General Electric	1.4	2.3
Computer Associates	0.3	0.0*	AT&T	0.8	1.6
Apple Computer	0.4	0.2	BellSouth	0.4	1.1
Compaq Computer	0.3	0.0*	Glaxo Holdings ADR	0.0*	0.7
Alcoa	0.4	0.2	EI du Pont de Nemours	0.5	1.2
LIN Broadcasting	0.3	0.1	Imperial Chemical ADR	0.1	0.6

*Exact figure is less than 0.05%.

Light blue chips. Even though institutions bought IBM, GE and Exxon last quarter, these stocks remain underweighted in the institutional portfolio. While their combined current market value of $176.6 billion amounts to 9.6% of the Wilshire 5000's value, they account for 5.4% of the portfolios in the TUCS survey. To bring the weight of these stocks in the TUCS portfolio in line with their weighting in the Wilshire index, the institutions would have to buy another $3 billion of these issues. In the fourth quarter the institutions bought diversified tobacco stocks Philip Morris and American Brands, and took profits in RJR Nabisco. Apple and Compaq Computer were also favorites.

Sector activity and top holdings

% of institutional portfolio: ■ most recent quarter ■ previous quarter

Capital goods	5.7% 5.8%	Consumer durables	3.4% 3.9%	Consumer nondurables	31.1% 30.4%
	total return		total return		total return
General Electric	4.1%	General Motors	13.0%	Philip Morris	6.5%
Caterpillar	11.0	Ford Motor	–0.1	Merck	0.7
Emerson Electric	2.2	Chrysler	8.3	Johnson & Johnson	–0.3
Westinghouse Electric	0.7	Goodyear Tire & Rubber	–11.1	Wal-Mart	–2.6
Deere & Co	8.9	Whirlpool	–0.4	Coca-Cola	2.7
Energy	**7.6%** 7.3%	**Finance**	**12.4%** 12.6%	**Raw materials**	**14.8%** 14.9%
	total return		total return		total return
Exxon	–0.4%	American Express	–3.5%	Dow Chemical	1.7%
Amoco	2.9	Citicorp	0.5	Monsanto	6.5
Atlantic Richfield	5.6	American Intl Group	2.6	Waste Management	–0.6
Mobil	8.2	General Re	–0.4	EI du Pont de Nemours	9.2
Chevron	6.4	JP Morgan	–6.2	Alcoa	6.8
Technology	**15.7%** 16.6%	**Transportation**	**3.1%** 3.7%	**Utilities**	**6.2%** 4.8%
	total return		total return		total return
IBM	6.6%	Union Pacific	8.5%	AT&T	11.7%
Digital Equipment	4.8	Burlington Northern	12.1	GTE	3.6
Hewlett-Packard	6.9	Norfolk Southern	8.0	Pacific Telesis	3.3
Boeing	–4.9	AMR	12.9	BellSouth	–2.5
MCI Communications	10.4	Federal Express	4.7	Southwestern Bell	1.6